

A Work Project presented as part of the requirements for the Award of a Master Degree in
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A MARKET RESEARCH ON THE TOBACCO CONSUMERS IN PORTUGAL: WHAT
EXPLAINS THE SUCCESS OF IQOS AND WILL IT SUSTAIN IN THE FUTURE?

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Abstract

The tobacco industry has been facing several transformations as technology evolves and consumers become increasingly health concerned. Philip Morris International leveraged on this trend and introduced IQOS in Portugal, converting several smokers to their heat-not-burn technology. This Work Project analyses the viability of this product in the Portuguese market as well as the strategy behind its current success, through the comprehension of the complexity of the tobacco industry and segmentation and quantification of the tobacco consumers in Portugal. It is concluded that IQOS is an established brand in Portugal, with several loyal consumers due to its convenient distribution and marketing strategy, which can still further penetrate the market through early mover advantages in the Portuguese Reduced Risk Products market.

Keywords: IQOS, Tobacco, Market Segmentation, Industry Analysis

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1. Introduction & Objectives

Before the latter part of the 20th century, it was unknown that tobacco was prejudicial to people's health and it was consumed heavily, as well as highly advertised. Nowadays, although the negative health effects of both active and passive smoking are known, around 6.5 trillion cigarettes are sold around the world each year, generating 699.4 billion dollars worldwide in 2017 (Tobacco Atlas, 2017). While the percentage of smokers worldwide is still considerable, consumers are increasingly aware that "smoking kills", which lead to a decrease in tobacco sales worldwide by 1.3% between 2003 and 2007 and it is predicted to decline by 8% until 2022 (Juenger, 2019). If this global decline in tobacco consumption continues, it will negatively impact the tobacco companies' profits, forcing them to make efforts to satisfy consumers' needs to guarantee that their sales remain stable. For this reason, in the late 2000s, e-cigarettes were created, becoming an alternative to smoking tobacco and a new industry: the "Reduced-Risk Products" (RRPs). This kind of products are a response of cigarette companies to the two biggest issues that are leading to the decline in sales: the health problems cigarettes create and the fact that younger people are becoming less interested in conventional smoking. Currently, these RRP's consist of e-cigarettes, oral nicotine (or snus), and heat-not burn devices that heat the tobacco instead of burning it.

As for heat-not-burn devices, IQOS from Philip Morris International is the very first device sold in Portugal and its arrival in the country allied a new exciting product with a brand that consumers already trusted and used. Philip Morris International (PMI) owns the best-selling brand around the globe since 1970 (excluding the Chinese market), Marlboro. Hence, PMI took advantage on the significant brand awareness and trust Marlboro had among its consumers and launched the tobacco sticks branded with the Marlboro label (Appendix 1)

and with the same price as regular cigarettes in the respective country (PMI,2018). With the launch of IQOS (which means I Quit Ordinary Smoking), PMI changed its mission statement to “Creating a smoke-free future” with the goal of making a drastic shift away from its core business and towards promoting “healthier” (allegedly) smoking alternatives. Since it first arrived in Portugal, in 2015, it already converted roughly 12% of the adult smoking population, becoming an atypical country already in the Top 5 of countries in the world that consumes more heated tobacco, with 6% of market share (MS) in total sales of tobacco (Tabaqueira,2018).

The current Work Project focuses on building a comprehensive analysis of IQOS’ viability in the long term in Portugal, through a deep consumer and external analysis. In an atypical and highly regulated market, where it is forbidden to advertise, create promotional discounts or do product placement for tobacco, how can IQOS further penetrate the market? A PESTLE analysis will be conducted as well as interviews with tobacco consumers, to deeply understand how profoundly complex the tobacco market in Portugal is, and the challenges IQOS needs to face to further penetrate the market, becoming an interesting case study regarding highly regulated markets, which can be used in other challenging markets. Ultimately, through the analysis and quantification of the tobacco segments in Portugal and a SWOT analysis, it is going to be possible to perceive if IQOS has still room to grow in Portugal.

2. Market Analysis of Tobacco Products in Portugal

To understand effectively the viability of IQOS in Portugal, it is necessary to understand the whole tobacco category in this country first. Since this category’s success is highly dependent on external factors, which cannot be controlled by tobacco brands and can dramatically

change the direction of this market, such as taxes, laws or even social factors, it is essential to understand the main drivers of the Portuguese tobacco market and how they can evolve to fully understand it. For that reason, a PESTLE framework will be conducted and presented in the Table 1 below. Afterwards, an analysis of the Reduced Risk Products market in Portugal and the Brand IQOS will be conducted.

Table 1: PESTLE analysis

2.1.1.Political
Current state
In Portugal, tobacco is one of the products which carries more special taxes and the one which holds the highest tax burden. These taxes vary depending on the type of tobacco. Cigarettes are the tobacco product with the highest tax rate, representing 80% of its final price. For cigars and cigarillos, the tax is only 25%, for rolling tobacco and IQOS is between 46%-48% and for e-cigarettes' nicotine liquid is 0,3€/ml (Portugal Global, 2018). Hence, Reduced Risk Products hold much less taxes due to the European law that doesn't classify this kind of products as cigarettes, which allows them to offer a more competitive price while gaining more revenue than traditional cigarettes. Only in 2015, heated tobacco was fiscally treated as rolling tobacco and currently, the state earns 1,46€ less for each heated tobacco sold but both are priced similarly for the consumer (Público, 2017). These taxes have a double financial goal: state's additional revenue and the penalization for tobacco consumers, to reduce its consumption. From 2017 to 2018, tobacco fiscal revenue increased by 7,5 million euros to 798,6 million euros due to tax increase, which lead to a decrease of 4,32% in cigarette consumption and 36% in rolling tobacco consumption.
Future direction of the political dimension
Although the European directive on the structure and rates of excise taxes on manufactured tobacco don't classify heated tobacco as cigarettes, due to the current success of this kind of products all around Europe this directive is being revised, which can dramatically change the tobacco industry structure (Público, 2018). Hence, if the demand for Reduced Risk products increases or if its health harms are discovered eventually, the state will realize the potential tax revenue they could gain by increasing the taxes on these products and in the future, they could have the same tax burden as conventional cigarettes, which will consequently lead to an increase in its price or to a dramatic decrease in revenues.
2.1.2.Economical
Current state
A smoker in Portugal would have to spend 4,65% of their average income (measured by per capita GDP) to purchase 10 cigarettes (half a pack) each day (Tobacco Atlas, 2016). According to "Attitudes of Europeans towards tobacco and electronic cigarettes", between 2006 and 2017 in the EU, smokers of tobacco products declined by 6% and in Portugal it has been declining on average 0.39% per year over the last five years.
Future direction of the economical dimension
Since tobacco consumption is not an indispensable product for living, the decrease in buying power and the constant increase in tobacco prices may lead to a decrease in its consumption in this country. Furthermore, tobacco consumers have demonstrated to have a high elasticity regarding the purchase of cigarettes, so price increases lead to a decrease in the rate of new consumers (Juenger, 2019).
2.1.3.Social
Current state
Smoking depends on several factor which ultimately explain consumer behaviour towards tobacco and the current demographic trends around the decreasing of smoking rates: its addictive nature, the growing awareness towards the dangers of smoking and the societal obstacles around the acceptance of smoking. Tobacco contains nicotine, which is a stimulant and has addictive compound properties, which leads to the addiction in tobacco which grows stronger with time. This ultimately leads to loyal customers that are loyal by necessity and see tobacco as a habit. Nowadays, 1.2 Billion people around the world are permanent cigarette

<p>smokers (PMI,2018). According to Centers for Disease Control and Prevention, although 70% of smokers would like to quit smoking, and 50% report having made a quit attempt in the past year, only 3-6% of quit attempts without assistance are successful in the long-term. Thus, the tobacco industry has a steady influx of business with they already addicted consumers (excluding those who eventually quit). There are several motives to start smoking, such as peer pressure, since one of the groups most likely to begin smoking, teenagers, is also one of the most susceptible to peer pressure, to cope with stress and for the sole purpose of enjoyment and pleasure (Neves,2019).</p> <p>Furthermore, smoking is increasingly frowned upon due to being an irresponsible choice of living, considering its health consequences, as well as, in a world where social media puts tremendous pressure on people to be as beautiful as they can be, smoking consequences on its consumers' teeth and skin is not well seen. Moreover, although smoke pollution may be an environmental issue, it is also a social factor as non-smokers normally prefer to not inhale tobacco smoke, which lead to the increase of no-smoke areas.</p>
<p>Future direction of the social dimension</p>
<p>Although teenage years are the most common time to start smoking, this trend is changing in new generations, since children are taught about the dangers of smoking and the various restrictions on where tobacco can be consumed and who can consume it grow awareness for these dangers, as well as public awareness-raising campaigns (Appendix 2). This growing awareness around the dangers of tobacco is reducing the number of young people who consume it, along with the fact that younger generations are treating their bodies like an ecosystem and are seeking solutions to complement their personal health and needs while being social responsible. The aforementioned current consumer behaviour towards tobacco explain the success of Reduced Risk Products among smokers, which allow them to still have the pleasure of smoking, without the same health dangers (allegedly) and environmental and social consequences. Thus, by using RRP, smokers feel better with themselves and with society around them.</p>
<p>2.1.4. Technological</p>
<p>Current state</p>
<p>The tobacco industry has been affected by several innovations in technology in the 21st century, such as the development of a new alternative to smoking: the Reduced Risk Products (RRP), which usually mimic the feel of smoking by emitting vapor and are battery-operated. Although RRPS contain nicotine (which normally its quantity can be chosen), smoking using these devices doesn't involve inhaling any smoke, which is allegedly less dangerous (still not proven by independent studies). These products are more popular in younger generations, due to its modern design, which usually allows personalization, for being technological and for the possibility of smoking indoors without smelling like smoke.</p> <p>In addition to the unknown health effects on these products, since they have not been thoroughly evaluated in scientific studies, early evidence suggests that RRP may serve as a doorway for teenagers to use other tobacco products, given that young people are the main users of this technology (Centers for Disease Control and Prevention, 2018). Furthermore, it is possible that non-smokers and teenagers may start nicotine use with RRP at a higher rate than if they didn't exist. Although, there are studies that suggest that RRP might be less harmful than conventional smoking for people who smoke regularly and switch to them as a replacement, despite not eliminating their nicotine addiction. Currently, there is not enough data on the safety of RRP, how their health effects compare to traditional cigarettes and if they are helpful in the long term for people trying to quit smoking. It is only known that RRP exposes the lungs to several chemicals, not only in the e-liquid/stick, but also in the vapor created and in the device itself, that may contain potentially toxic metal nanoparticles. More research is needed on the health harms of repeated exposure to these chemicals.</p>
<p>Future direction of the technological dimension</p>
<p>In Portugal, RRP consumption has been drastically increasing and according to Passport, in 2018, RRP are worth 115,6 million euros in Portugal (Appendix 3), which is a 100 million difference compared to 2013. Since IQOS arrived in 2015, this market has grown 217% and along with the recent appearance of new entrants in this category, it is estimated to increasingly grow.</p>
<p>2.1.5. Legal</p>
<p>Current state</p>
<p>From a legal perspective, the tobacco industry is constrained by several laws in Portugal, due to the evidence of side effects of smoking and will become increasingly restrictive to reduce tobacco consumption. In Portugal, there is the prohibition of minors from consuming tobacco products, the prohibition of smoking in most public places, the mandatory 65% of pack covered with warns about the dangers of tobacco (Appendix 4) and bans on advertising smoking products (SNS,2018). It is forbidden to advertise tobacco products on TV,</p>

<p>radio, magazines and newspapers, outdoor advertising and internet advertising. It is also forbidden to do promotional discounts on tobacco, product placement on TV and sponsorships with any tobacco brand (Tobacco Atlas, 2016).</p> <p>According to SNS, due to the success of RRP in Portugal, since 2018 the concept of smoking was changed by the eyes of the law, and Reduced Risk Products were considered tobacco products and the same prohibitions were made for these devices. Thus, since 2018, RRP cannot be advertised and cannot be smoked in smoke-free zones. Furthermore, since people have a higher tendency to start smoking with these devices, a law was created for the packaging of these products to say “This product contains nicotine, a substance that creates a strong dependence” and “It’s not recommended for non-smokers”.</p>
<p>Future direction of the legal dimension</p>
<p>DECO defends that tobacco packages should be unmarked, without any logo or design elements, to make the products less appealing, reducing the association of positive attributes and increase the effectiveness of the health warning in the package (DECO,2017). This can harm IQOS, since its main strategy is branding and design. Furthermore, although RRP are treated as conventional tobacco in the Portuguese law, in the EU this still has not happened. Thus, from January 2019 menthol tobacco is forbidden but RRP menthol flavoured are still allowed. This is a huge advantage for RRP companies, which can increase sales by selling menthol flavoured tobacco to ex-menthol cigarette smokers.</p>
<p>2.1.6.Environmental</p>
<p>According to Tobacco Atlas, cigarette butts are the most commonly discarded pieces of waste worldwide. It is estimated that 4797 tons of butts and packs end up as toxic trash in Portugal each year. These butts contain chemical filters which contain several pollutants and every time a cigarette butt is thrown to the floor, these pollutants are released into the environment, causing soil and water pollution. Furthermore, per each 300 cigarettes produced, one tree is destroyed. Moreover, according to Medical News Today, the air pollution emitted by cigarettes is 10 times greater than diesel car exhaust and produces fine particulate matter, which is the most dangerous element of air pollution for health. Although, according to Philip Morris International, the heat-not-burn technology heats up to a temperature of 350° (vs 600° in a regular cigarettes), which allegedly reduces the emission of harmful substances into the air.</p>

Source: Secondary Research

2.1. Reduced Risk Products in Portugal

In 2010, the first Reduced Risk Products arrived at Portugal: e-cigarettes. Initially, these products were only distributed in small shops created for this purpose, which sold the devices and the liquids with several flavours. These shops were owned by small companies and there was not one brand that stood out from the others. This was highly successful in Portugal at the time, since a bottle of 10ml, which is equivalent to 6 packs of cigarettes, cost 6€. Later, when taxes for this kind of products increased and the liquids and nicotine began to be sold separately, these stores began to close one by one and the vaping trend in Portugal began to vanish(Visão,2018).

Since PMI launched IQOS, the other big tobacco manufacturer brands followed by launching Reduced Risk Products, although they created e-cigarettes and not heated tobacco. In the second part of 2019, these new e-cigarettes brands were launched in Portugal: MyBlu (owned

by Imperial Tobacco), Logic. (owned by Japan Tobacco International) and Juul (35% owned by PMI). These products and its respective prices can be seen in further detail in Appendix 5 and 6. Although these products are still very recent in Portugal and there is still few data regarding their success, they could steal consumers from IQOS in the future, as they are direct competitors available in convenient distribution.

3.The brand IQOS in Portugal

Philip Morris International (PMI) is the owner of the Portuguese company Tabaqueira since 1997, which is the only tobacco company in Portugal mainland (Tabaqueira, 2016). Tabaqueira produces and sells the main tobacco brands in Portugal: SG, Português, L&M, Chesterfield and Marlboro, holding 59,1% of MS in cigarettes in Portugal (Passport, 2018). Each cigarette brand owned by Tabaqueira's market share can be seen in Appendix 7.

In 2014, Philip Morris International made a drastic shift away from its core business by launching the IQOS device, a tobacco heating-system using the Heat not Burn technology, while changing its mission statement for "Creating a smoke-free future". PMI justifies this drastic change by being "the right thing to do", since there are more than one billion smokers in the world who should be encouraged to quit. As for the adult smokers who would continue smoking, PMI wants to provide them smoke-free alternatives. Their main message is: "If you don't smoke, don't start. If you smoke, quit. If you don't quit, change.", explaining that if they ceased to sell cigarettes, smokers would go elsewhere for their supply (PMI, 2018). Furthermore, by offering the personalization of the device and the benefits of less smoke, smell and health harms, IQOS can reach to the young, tech-savvy who seek for a trendier and less dangerous way to smoke. PMI's main goal is to be, in the future, the company who replaced cigarettes with a portfolio of revolutionary products, intending to stop producing

cigarettes in the long-term and developing a market for smoke-free tobacco devices, with IQOS leading the way. Hence, by claiming to manufacture less harmful devices and promising to stop producing conventional tobacco in the long run, PMI is trying to modify societies' view on smoking into a more positive perspective as well as the company's brand image and purpose, presenting itself as a pioneer in saving the consumers from its own products. In 2018, only 4 years after the launch of IQOS, it was estimated that 6,6 million adult smokers quit smoking conventional tobacco and chose this smoke-free alternative (PMI,2018).

Since its arrival in 2015, IQOS already reached a 6% market share in total sales of tobacco in Portugal, with the goal of reaching 8% until the end of 2019 and it is estimated that 80% of IQOS consumers in Portugal only uses this device to smoke, which shows that “creating a smoke-free future” may be a possibility in this country. This way, PMI is proactively responding to the current challenges the tobacco industry is facing, which could change the industry's structure in the long term.

3.1. Brand inventory of IQOS

The analysis of the Brand Inventory provides insights on how the brand may be better managed (da Silveira, 2018) and will be integrated to understand IQOS long-term sustainability. IQOS' slogan is “This changes everything”, which emphasizes the disruptiveness of this invention and its logo can be found in Appendix 8.

IQOS is a Heat-not-Burn device which consists of a charger, an electronic holder and a stick called HEETS, which is made from tobacco and inserted into the electronic holder to be smoked. Instead of the typical ignition, HEETS is heated up to a temperature of 350°C, releasing less odor and producing less smoke compared to conventional cigarettes. Thus, this

brand's portfolio is composed by HEETS, the tobacco sticks which are inserted into the electronic holder, the IQOS' devices and several accessories. HEETS are available in 7 varieties (Appendix 9) all priced at 4,5€. Currently, there are 3 IQOS devices available for purchase: IQOS 3 Duo (99€), IQOS 3 Multi (79€) and IQOS 2.4 Plus (49€), (Appendix 10) and each of these devices have different features, number of experiences available per charge and weights.

4. Addressing the Work Project's topic

4.1 Methodology

After analysing secondary research on the brand and the market, primary research was conducted to better understand IQOS' marketing strategy, tobacco buyers and their behaviour with a focus on IQOS, by combining qualitative and quantitative research. Then, the insights were crosschecked using different research techniques: on the qualitative research, interviews with 5 IQOS' staff members and 44 in-depth interviews with shoppers were carried out and to quantify the insights obtained with the above-mentioned techniques, a quantitative questionnaire was developed. The following Table 2 explains each of the research methods in further detail, as well as their respective objectives.

Table 2: Work Project Methodology

<p>1.IQOS' staff interviews</p> <p>This method provides relevant information regarding IQOS' challenging marketing strategy, such as its defined target and its market penetration and customer retention strategy.</p> <p>Details: 5 interviews with IQOS' staff members (1 brand ambassador, 2 IQOS' promoters, 2 brand managers). The interview guide can be found in Appendix 11.</p> <p>Data collection period: October and November 2019</p> <p>Objectives: To understand IQOS' main market penetration and customer retention strategy as well as distribution, communication, targeting and positioning statement.</p>
<p>2.In-depth Interviews</p> <p>Details: 44 face-to-face interviews with smokers of any kind of tobacco products, who have been living in Portugal for the past 5 years. Pre-recruiting questionnaire and interview guide detailed in Appendix 12 and 13. See sample characterization in Appendix 14.</p> <p>Data collection period: October and November 2019</p>

Objectives: explore brand perceptions towards IQOS and the whole category in general, to list all possible brand associations. The research objectives for the market are consumers' habits, preferences and needs concerning tobacco consumption, what is the favourite brand associated with tobacco, which are the main competitors and why they are chosen over IQOS. As for the brand, the research objectives are by whom, how and when is IQOS consumed, which are the most and least consumed products of IQOS, what consumers think of IQOS (brand image). Ultimately, the objective is to segment smokers according to their behaviour of purchase and consumption, image and perception of the tobacco category, image and perception of IQOS and its competitors.

3. Online quantitative questionnaire

Details: 305 responses, with 246 suitable respondents (smokers). The questionnaire can be found in Appendix 15.

Data collection period: November and December 2019

Objectives: To quantify and characterize demographically the segments identified in the in-depth interviews; to estimate the potential penetration of IQOS - to ultimately understand its viability in the long-term.

4.2. Research Limitations

During the course of this Work Project, two main limitations appeared. First of all, the sample is not representative of the total population, since most respondents are aged under 25 years old, which is the age range where IQOS is most successful, so the proportions of the segments might be distorted, which may lead to bias in the conclusions. For this reason, it is probable that the “The Health Concerned”, “The Socially Concerned” and “The Trendy Techs” segments are overly estimated. Nevertheless, this bias in estimating the penetration of IQOS is beneficial for the analysis on the viability of IQOS, since it allows studying IQOS' target in more detail. Secondly, given time constraints it was not possible to collect more than 305 responses to the quantitative survey and 44 responses in the in-depth interviews, which might not represent the Portuguese tobacco smokers effectively.

4.3 Main Research Insights

From the techniques presented above, it was possible to extract several key insights. Firstly, insights on IQOS' marketing strategy will be introduced. Then, insights shared by most respondents of the in-depth interviews (regardless of how they behave in the category) will be introduced, regarding tobacco in general and IQOS in specific. Finally, segmentation will

be performed to better analyse the different behaviours across the market and the detailed characterization of each segment will be presented.

4.3.1. IQOS' Marketing Strategy

Since the tobacco market is highly regulated, its marketing strategy is significantly more challenging and needs to be different compared to other markets, since there are advertising, promotional and legal bans, as it was mentioned in the PESTLE analysis. Thus, to understand IQOS' target, main market penetration and customer retention strategy, primary research was conducted with IQOS's staff. Table 3 below explains the insights regarding IQOS' marketing strategy. IQOS' positioning statement was also analysed, to understand IQOS' strategy to identify and establish Points of Parity and Points of Difference with its main competitors to achieve the best Brand Image (Kevin L. Keller, 2013) and it can be seen in Appendix 16.

Table 3: IQOS' Marketing Strategy

Target
Initially, IQOS' defined target was young people with buying power, but as the brand increasingly penetrated the market with several consumers who didn't fit their initial description, its marketing team realized IQOS is a product for any smoker who wants to feel healthier and better with themselves and with society, so the target changed to all uncompromising smokers.
Market Penetration Strategy
Since October 2015, IQOS has been present in Portugal. To penetrate the Portuguese market and increase brand awareness on this disruptive product, in the whole month of October 2015, it was organized 30 dinners in Pavilhão de Portugal with IQOS' staff members and partners, which received an IQOS device and could order HEETS tobacco sticks for free. In this stage, IQOS' heat sticks had in the front package "HEETS from Marlboro", to take advantage of Marlboro trust and brand awareness among Portuguese consumers, while now they solely have in the back package "Recommended by Marlboro". It was also possible (it still is) to loan the device for free for a week to experiment with it. This was IQOS' strategy to bend the fact that an IQOS device is a high involvement purchase (versus cigarettes, which are not), allowing consumers to experiment the product without committing to it. To further increase market penetration, consumers who would register their device on IQOS' site had several promotional discounts if their acquaintances would buy the device with their code. IQOS was also present in several events, such as festivals and Moda Lisboa, in which it was possible to charge, exchange or loan a device and get customer care. IQOS' promoting team is present in these events, approaching any smoker and asking if they want to experiment with this device. Furthermore, IQOS' promoting team attends coffee shops, restaurants and gas stations daily, explaining to smokers IQOS' benefits and features and loan them a machine if they are interested.
Customer Retention Strategy
Currently, since already 12% of Portuguese smokers use the IQOS device, IQOS started its customer retention strategy, which consists in a highly personalized experience and excellent customer care. Not only it is possible to have 576 exterior customisation options, but it is also possible to engrave the devices in gas stations, coffee shops, restaurants and IQOS' boutiques. There is a call center, which works 12 hours a day, where any user can ask questions, a live chat, which works 24 hours, and the possibility of

exchanging a broken device in your location, through a courier. Moreover, IQOS surveys its consumers regularly, to understand their major concerns regarding this new way of smoking.
Distribution Strategy
<p>In the pilot-stage of this product in Portugal, it was only possible to buy the devices and heat sticks in IQOS club, in Chiado, and only IQOS' club members could buy it. It would only be possible to be an IQOS' club members through a recommendation of another member, who could only invite 5 people after the purchase of a device, who would be delivered to the consumer's address along with a briefing of this new technology' benefits and usage. To mitigate the fact that HEETS were not available in normal distribution, in this stage IQOS' club members could order to their address HEETS packs.</p> <p>After the pilot-stage, IQOS began to partner with tobacco kiosks and shops, who would sell the devices and tobacco sticks, and created pop-up stores throughout Portugal, to increase the product's availability and distribution. In this stage, IQOS also hired several resellers that would sell the devices through word of mouth or communicating the product on their social media, becoming brand ambassadors, spreading information and promotional discounts to their followers to increase brand awareness and create word of mouth on this new technology and bend the law regarding communication restrictions. Relevant examples of posts of IQOS' brand ambassadors can be found in Appendix 17.</p> <p>In the current stage, IQOS heat sticks are already available in normal distribution channels, such as 15000 tobacco vending machines, gas stations and tobacco kiosks throughout Portugal. The devices and accessories can be bought online in IQOS' website, in several stationary shops and in the 4 IQOS pop-up boutiques in Portugal (Bairro Alto, Amoreiras, Colombo and NorteShopping).</p>
Communication Strategy
<p>As it was mentioned in the PESTLE analysis, IQOS has a very restricted communication strategy, as the usual means of communications are forbidden for the tobacco market. Despite that, IQOS communicates on Facebook (Appendix 18), on Instagram via its brand ambassadors (with private accounts), in events and via POS marketing (Appendix 19). IQOS Point of Sale Marketing is highly differentiating compared to its competitors, due to its considerable share of shelf and flashy and appealing point of sale communication materials. Furthermore, IQOS' stands are present in the most important events in Portugal and they are usually the only tobacco stand available in these events, selling not only IQOS products but also other PMI's tobacco brands. The salespeople on these stands are briefed to alert consumers who ask for cigarette brands of the benefits of IQOS and to persuade them into experimenting with the device for free.</p> <p>Moreover, PMI takes advantage on its ownership of several cigarette brands and communicates IQOS products on its other cigarette packs.</p>

Source: Primary research (Interviews with IQOS' staff)

4.3.2. Insights on tobacco products

The table 4 below shows the insights that were frequently mentioned by a great majority of the respondents of the in-depth interviews with tobacco consumers, regarding the main reasons to buy and consume tobacco and to start smoking. Level of tobacco consumption was considered an important variable from the beginning, since heavy smokers are more dependent on nicotine and consume tobacco products more frequently throughout the day.

Table 4: General tobacco category insights

1.Main reasons to buy	1.1.Routine & problem avoidance	<p>Tobacco products are perceived as a routine purchase, since it creates loyalty by necessity.</p> <p>"I buy it before I run out of it" Cigarettes, Female, 45-55, >7 packs per week</p> <p>"Sometimes I buy it just to know I have it" Cigarettes & IQOS, Female, 18-25, 1 pack per week</p>
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		<p><i>"Sometimes I even buy 2 packs at the same time, just to be sure I don't run out"</i> Cigarettes, Male, 46-55, >7 packs per week</p>
	1.2.Before social gatherings	<p>Tobacco is seen as a social habit, and consumers buy one pack before they go out, have a party or drink socially, since social events increase their level of consumption.</p> <p><i>"If I go out, I always by one more pack of cigarettes"</i> Cigarettes, Male, 46-55, >7 packs per week</p> <p><i>"If I have a party, I always buy cigarettes before"</i> Cigarettes & IQOS, Female, 18-25, 1 pack per week</p>
2. Main reasons to consume	2.1.Pleasure	<p>Smokers perceive tobacco consumption as a pleasurable moment in their routine, specially while drinking coffee or after every meal.</p> <p><i>"I cannot avoid smoking a cigarette after coffee or after each meal, it feels really good on a full stomach and it is one of the most pleasurable moments of the day"</i> Cigarettes, Female, 46-55, 3-4packs per week</p>
	2.2. Break	<p>Smoking is seen as an "excuse" to have a break from study / work and unwind.</p> <p><i>"When I need a break from the work I'm doing, I go outside to smoke"</i> IQOS, Male, 36-45, >7 packs a week</p>
	2.3. Socially	<p>Smokers increase their level of tobacco consumption in social events and when they are surrounded by other smokers.</p> <p><i>"When I leave work I smoke much more because I'm around people who smoke"</i> IQOS, Female, 18-25, 3-4 packs a week</p>
	2.4. Addiction	<p>Almost every respondent mentioned the word "addiction" while being interviewed, being aware of their dependence on this product.</p> <p><i>"I'm very addicted to tobacco, so sometimes I even smoke when it doesn't feel that good, just out of habit and sometimes I don't even finish the cigarette"</i> Cigarette, Male, 36-45, >7 packs a week</p>
	2.5. Stress	<p>Tobacco consumption is seen as a way to calm smokers' nerves when they feel stressed.</p> <p><i>"Before an exam or test, I always smoke one or two cigarettes in a row, just so I can calm my nerves and relax"</i> Rolling Tobacco, Female, 18-25, 3-4 packs a week</p>
	2.6. Routine activities	<p>Respondents mentioned they smoke everyday in the same occasion, in their routine activities throughout the day.</p> <p><i>"I smoke a cigarette everyday while I'm waiting for the bus. It helps making the time pass faster"</i> Cigarettes, Male, 18-25, 3-4 packs a week</p>
3. Main reasons to start	3.1. Rebelliousness	<p>Respondents mentioned they started smoking to not comply with the rules to feel rebellious, and because it was forbidden.</p> <p><i>"I started smoking because it was fun to smoke without my parents knowing"</i> Cigarettes & IQOS, Female 18-25, 1 pack a week</p>
	3.2. For feeling like an adult	<p>Respondents mentioned they started smoking to feel more like grown-ups.</p> <p><i>"I started smoking because it made me feel like a man, like an adult"</i> Cigarettes, Male, 46-55, >7 packs a week</p>
	3.3 Curiosity	<p>Almost every respondent mentioned they started smoking due to the curiosity they had regarding this activity.</p> <p><i>"A lot of people in my family smoke, so I always had curiosity to see what it feels"</i></p>

		<i>like to smoke. Next thing I knew, I was a regular smoker” Cigarettes, Female, 36-45, 3-4 packs a week</i>
	3.4 Peer pressure	<p>Almost every respondent said they started smoking because their friends smoked and with the brands their friends smoked.</p> <p><i>“My friends and I decided to try our first cigarette together” Cigarettes, Female, 18-25, 3-4 packs a week</i></p> <p><i>“I was the only non-smoker in my group of friends so I decided to joined them, just to feel accepted” IQOS, female, 18-25, 1-2 packs a week</i></p>

Source: author, based on primary research

4.3.3. Insights on IQOS

The table 5 below shows the insights that were frequently mentioned by a great majority of the respondents, regarding the main reasons to buy and not to buy IQOS. IQOS was mentioned in more than 75% of the interviews and it was noticeable it is a frequent conversation topic, since consumers are starting to notice the changed behaviour of the smokers around them. The insights below will allow the perception of what consumers value the most regarding IQOS, as well as its perceived flaws.

Table 5: IQOS' main insights

1.Main reasons to buy	1.1. Soft feeling	<p>Respondents mentioned they liked IQOS because it was softer than cigarettes and easier to inhale.</p> <p><i>“I don't like the taste of cigarettes, so before IQOS existed I didn't smoke. IQOS tastes better because it's softer” IQOS, Female, 18-25, 1 pack a week</i></p> <p><i>“I like IQOS because it is like smoking shisha, you don't feel that much smoke getting inside your lungs, it's much softer” IQOS, Female, 18-25, 3-4 packs a week</i></p>
	1.2. Trendy & technological	<p>Respondents mentioned they perceived IQOS as the latest trend and that they would buy it because it was fashionable and technological, like an iPhone.</p> <p><i>“I think it looks more aesthetically beautiful seeing a person smoking IQOS than a cigarette” Rolling tobacco, Female, 18-25, 3-4 packs a week</i></p> <p><i>“Smoking IQOS is like having an iPhone in the eyes of society” Rolling tobacco, Female, 18-25, 3-4 packs a week</i></p>
	1.3. Less harmful	<p>Almost every respondent mentioned IQOS was a healthier alternative to smoking cigarettes.</p> <p><i>“I haven't tried IQOS, but I've heard it is much better for your health” Cigarettes, Female, 45-55, >7 packs a week</i></p> <p><i>“I started to smoke IQOS because I wanted to feel healthier, with less cough and a less irritated throat” IQOS, Male, 18-25, 1-2 packs a week</i></p>
	1.4. To quit smoking	<p>Respondents mentioned they would consume IQOS to use as the middle step between smoking cigarettes and quitting, to help reduce the level of consumption.</p>

		<i>"I started smoking IQOS because I want to stop smoking but I can't do it from one day to another, so I'm using this device to slowly quit"</i> IQOS, Male, 36-45, 3-4 packs a week
	1.5. To not smell like tobacco	Respondents mentioned they liked IQOS because they didn't like to smell like tobacco and to bother non-smokers around them with their smell. <i>"IQOS is great because at the end of the day my clothes and body don't smell like smoke"</i> IQOS, Male, 26-35, 3-4 packs a week
2. Main reasons not to buy	2.1. Hard to adapt / not satisfying	Respondents mentioned they didn't smoke IQOS because they felt their addiction was not being satisfied, and that it was hard to adapt to that way of smoking. <i>"Sometimes I smoke an HEETS and after I want another one, I don't feel satisfied"</i> Cigarettes & IQOS, Female, 18-25, 1 pack a week
	2.2. Battery operated	Respondents mentioned they didn't smoke IQOS because it was battery operated, and they would have to carry another charger with them and remember to charge the device every night. <i>"I don't want to carry around another charger, like I do with my phone. And I don't want to be dependent of batteries"</i> Rolling tobacco, Female, 18-25, 3-4 pack a week
	2.3. Taste	Respondents mentioned they didn't like the taste of IQOS, due to being too soft or not tasting like tobacco. <i>"I have tried it but for me it doesn't count as smoking because it almost doesn't emit any vapour and the taste is not the same as cigarettes"</i> Cigarettes, Male, 36-45, >7 packs a week
	2.4. Price	Respondents mentioned IQOS device was expensive, and they wouldn't buy it for the recommended price. <i>"I only smoke IQOS because a friend of mine sold me the device for a cheaper price, I wouldn't buy the device by the recommended price, it is too expensive."</i> IQOS & cigarettes, Female, 18-25, 1-2 packs a week
	2.5. Unknown long-term effects	Respondents mentioned the fact that there are still no independent studies made regarding Reduced Risk Products and the fact that IQOS was too recent to know its long-term health effects scared them. <i>"I'm thinking of stop smoking IQOS because nobody knows the long-term effects of it and it scares me, and at least I know the long-term effects of cigarettes..."</i> IQOS, Female, 26-35, 1-2 packs a week

Source: author, based on primary research

4.4. Market segmentation of the Portuguese smoking population

The segmentation used in this Work Project was based on insights from qualitative in-depth interviews and quantified by the results of a quantitative questionnaire. The segmentation process was performed in the following way: firstly, the respondents were divided by what kind of tobacco product they smoked, since not every smoker is loyal to a brand, but as it was observed in the in-depth interviews, they are all usually loyal to a specific tobacco

product. Secondly, per each tobacco product segment, consumers were divided by the benefit sought that explain their choice.

It was concluded in the in-depth interviews that IQOS, although the only heated tobacco product available in Portugal at the moment, was already relevant enough to be considered a tobacco product itself, differentiating itself from other Reduced Risk Products (e-cigarettes) in the minds of most consumers interviewed. Thus, consumers were segmented by IQOS smokers, switchers between IQOS and cigarettes, cigarette smokers, rolling tobacco smokers and e-cigarettes smokers. Cigars and cigarillos smokers were not considered in this segmentation, since they are the least relevant tobacco products in Portugal, as it can be seen in Appendix 3. Although e-cigarettes are also currently not very relevant in Portugal, it was considered a tobacco product in this analysis as it is considered a direct competitor of heated tobacco due to being technological, battery operated and allegedly with less health hazards. This segmentation lead to nine segments, which are described in detail below, on which each segment was characterized by their behaviour regarding brand choices, considering there are five buyer groups: New Category Users, who enter the category by buying our brand, Brand Loyals, who regularly buy our brand, Favourable Brand Switchers, who occasionally buy our brand and also other brands, Other Brand Switchers, who buy other brands but not ours and Other Brand Loyals, who regularly buy a brand other than ours (Percy & Elliot, 2016). The weight of each segment (calculation based on results from the quantitative questionnaire) is presented in Appendix 20. A further detailed sample characterization by each segment can be seen in Appendix 21.

The IQOS smoker segment was divided into three subsegments, which represent the reasons to buy IQOS: the “Health Concerned” (who want to quit smoking or for those who can’t,

want to feel better), the “Socially Concerned” (who don’t want to smell like smoke in their work feel environment or among non-smokers, to feel more socially accepted), the “Trendy Techs” (who smoke IQOS because it’s visually appealing, a trend in Portugal and because it’s technological).

Table 6: “The Health Concerned” overview

The Health Concerned	
% of the total sample	7,8%
% of IQOS regular buyers	100%
Frequently purchased tobacco product	Risk Reduced Products, more specifically IQOS
Frequently purchased tobacco brands	HEETS
Buyer Group	Brand Loyals, as they are satisfied with the product and have positive perceptions regarding the brand, as it is the only heated tobacco product in the Portuguese market. This segment is loyal because IQOS is the only product in the market who can offer them their benefits sought: less health hazards, being considered healthier compared than other RRP's due to the heat-not-burn technology.
Benefits sought	Feeling better in a respiratory level, being able to better feel the flavour of food, to feel less tired when exercising, to reduce the level of tobacco consumption. A great part of this segment wants to quit smoking in the short-term and uses IQOS as a mean between smoking more dangerous tobacco products and quitting, to increasingly reduce their level of consumption.
Brand Image regarding IQOS	Positive, perceives IQOS as the healthier alternative in all tobacco products, which makes them feel better and helps them reduce consumption or quit. A more detailed IQOS' Brand image can be seen in Appendix 22.
Potential IQOS consumption	Already IQOS consumers and will not change until they quit and if they do, they will probably switch to other Reduced Risk Products that also offer the same benefits and which are also available in convenient distribution.
Insights	<p><i>“I have tried to quit several times and I even tried smoking e-cigarettes but it wasn't practical and it was very fragile. So, I tried IQOS and I already have reduced my level of tobacco consumption”</i> IQOS, Male, 45-55, 3-4 packs a week</p> <p><i>“I have tried to quit by slowly reducing the number of cigarettes I smoke per day but it never worked, so I switched to IQOS because I heard it worked”</i> IQOS, Male, 18-25, 1-2 packs a week</p>

Source: Author, based on primary research

Table 7: “The Socially Concerned” overview

The Socially Concerned	
% of the total sample	10,8%
% of IQOS regular buyers	100%
Frequently purchased tobacco product	Risk Reduced Products, more specifically IQOS
Frequently purchased tobacco brands	HEETS
Buyer Group	Brand Loyals, as they are satisfied with the product and they have positive perceptions regarding the brand, as it is the only heated tobacco product in the Portuguese market. This segment is loyal because IQOS is the only product in the market who can offer them their benefits sought: no passive smoking and smell in their body and environment, available in convenient distribution.
Benefits sought	To feel more socially accepted, to not bother non-smokers with their tobacco smell and with passive smoke.
Brand Image regarding IQOS	Positive , perceive IQOS as an alternative to keep smoking while still smelling good and as a way to feel better with themselves and with society. A more detailed IQOS’ Brand image can be seen in Appendix 22.
Potential IQOS consumption	Already IQOS consumers and will only change if they switch to other RRP’s that also offer the same benefits and which are also available in convenient distribution.
Insights	<p>“When I was hired in KPMG, I immediately started smoking IQOS because I didn’t want to smell like smoke near my work colleagues and be judged” IQOS, Male, 18-25, 3-4 packs a week</p> <p>“My girlfriend doesn’t smoke and she doesn’t like when I smell like smoke, so I started smoking IQOS so I don’t bother her” IQOS, Male, 18-25, 3-4 packs per week</p>

Source: Author, based on primary research

Table 8: “The Trendy Techs” overview

The Trendy Techs	
% of the total sample	7,8%
% of IQOS regular buyers	100%
Frequently purchased tobacco product	Risk Reduced Products, more specifically IQOS
Frequently purchased tobacco brands	HEETS
Buyer Group	New Category User and Brand Loyals. IQOS possesses a few New Category Users, as there are some consumers within this segment who started smoking using IQOS, to be fashion and trendy. Regarding Brand Loyals, they already committed to the purchase of the device and own an IQOS machine but are still building expectations based on the experience of this smoke alternative to inform the next decision

	journey. If another technological smoking device comes or if IQOS stops satisfying them, the initial set of considered brands might change and alter their next purchase decision, as this segment is a trend seeker and thus not loyal to IQOS in the long-term.
Benefits sought	To be trendy and fashion, to be more aesthetically pleasing while smoking.
Brand Image regarding IQOS	Positive, perceive IQOS as a cool brand, which is more visually appealing, cooler and more fashionable than other brands. A more detailed IQOS' Brand image can be seen in Appendix 22.
Potential IQOS consumption	Already IQOS consumers but might change if another Reduced Risk Product comes and becomes a trend in Portugal. Might not be loyal in the long-term since they are trend seekers.
Insights	<i>"I bought the device as soon as it came out in Portugal, in 2015, because I thought it was cool and technological."</i> IQOS, Female, 18-25, 1-2 packs per week <i>"I bought it because everyone had it and I thought it was like "the iPhone of smoking", but I eventually grew tired of it"</i> Rolling tobacco, Female, 18-25, 1-2 packs

Source: Author, based on primary research

The switchers segment were divided into two subsegments: the "Softs" who smoke IQOS because it's soft and easier to inhale, switching from one tobacco product to the other seeking the same benefit: a soft flavour, and The "Fresh", who smoke menthol flavoured tobacco, regardless of the tobacco product.

Table 9: "The Softs" overview

The Softs	
% of the total sample	19,5%
% of IQOS regular buyers	24,4%
Frequently purchased tobacco product	Cigarettes & IQOS
Frequently purchased tobacco brands	HEETS, Marlboro gold, slim cigarettes, Chesterfield Blue, L&M Blue
Buyer Group	Favourable Brand Switchers, who occasionally buy IQOS and also other brands. This segment has experienced with IQOS but haven't committed to this new alternative of smoking and switch between cigarettes and IQOS, not "quitting ordinary smoking" as it is the brand's goal. As this segment is not truly committed to this smoke-free alternative, they usually buy the device by second-hand to a cheaper price or use their acquaintance's devices, mitigating the high involvement purchase that this way of smoking implies.

Benefits sought	Less nicotine, since the brands mentioned above are the brands with the market with less nicotine and a softer feeling while inhaling.
Brand Image regarding IQOS	Positive, since IQOS also provides a softer feeling and less nicotine This segment also has a positive perception regarding IQOS' design. Although, as for the negative aspects, they perceive IQOS as an expensive brand, which doesn't satisfy their eager to smoke. A more detailed IQOS' Brand image can be seen in Appendix 22.
Potential IQOS consumption	Some of the consumers from this segment already smoke IQOS, or switch from cigarettes to IQOS occasionally. There is a possibility of IQOS reaching to this segment, due to the offering of a soft tobacco flavour. It is only necessary to make this segment loyal to IQOS and not cigarettes.
Insights	<p><i>"I didn't smoke before IQOS, because I didn't like the taste of cigarettes, it is too strong for me. IQOS is much softer so I prefer it."</i> IQOS, Female, 18-25, 1-2 packs per week</p> <p><i>"I cough a lot while smoking so I only like soft tobacco, so when IQOS appeared I thought I would like it, so I gave it a try"</i> IQOS & cigarettes, Female, 18-25, 3-4 packs per week</p>

Source: Author, based on primary research

Table 10: "The Fresh" overview

The Fresh	
% of the total sample	22,9%
% of IQOS regular buyers	16,9%
Frequently purchased tobacco product	Cigarettes & IQOS
Frequently purchased tobacco brands	HEETS Blue, HEETS Turquoise, Chesterfield Press, L&M Menthol, Camel Activate, Marlboro Menthol
Buyer Group	Favourable Brand Switchers, who occasionally buy IQOS and also other brands. This segment has experienced with IQOS but haven't committed to this new alternative of smoking and switch between cigarettes and IQOS, not "quitting ordinary smoking" as it is the brand's goal. As this segment is not truly committed to this smoke-free alternative, they usually buy the device second-hand to a cheaper price or use their acquaintance's devices, mitigating the high involvement purchase that this way of smoking implies.
Benefits sought	Menthol flavour, to feel freshness and to be easier to inhale smoke.
Brand Image regarding IQOS	Positive, since it also offers menthol flavoured tobacco products. Some consumers from this segment consider IQOS a brand with appealing design. In the negative perspective, they believe IQOS is expensive and not as satisfying as cigarettes. A more detailed IQOS' Brand image can be seen in Appendix 22.
Potential IQOS consumption	Some of the consumers from this segment already smoke IQOS, or switch from cigarettes to IQOS occasionally. There is a great probability that IQOS can penetrate this segment, since menthol flavoured cigarettes are going to be forbidden by 2020 and the only menthol flavoured tobacco products available in the market are going to be from RRP's.

Insights	<p><i>“I only like menthol flavoured cigarettes. So before I used to smoke Chesterfield Press and since I discovered IQOS, I started smoking HEETS turquoise instead”</i> IQOS, Female, 18-25, 3-4 packs per week</p> <p><i>“I switch between HEETS turquoise and L&M menthol because I only like menthol flavoured cigarettes, but smoking only HEETS doesn’t satisfy me”</i> IQOS & cigarettes, Female, 18-25, 1-2 packs per week</p>
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Source: Author, based on primary research

The “Loyals” segment represent consumers who are loyal to cigarettes and nothing else, who smoke trusted and long-established cigarettes brands in the market, that they feel comfortable with, with no intention to change.

Table 11: “The Loyals” overview

The Loyals	
% of the total sample	14,7%
% of IQOS regular buyers	0%
Frequently purchased tobacco product	Cigarettes
Frequently purchased tobacco brands	Marlboro Red, SG Ventil, Chesterfield Black
Buyer Group	Other Brand Loyals, who regularly buy a brand other than IQOS.
Benefits sought	A trusted brand, on which they can rely on, that known and available in every tobacco kiosks and shops.
Brand Image regarding IQOS	Although some of these consumers mentioned it was a healthier alternative, most of them felt disconnected from it, having a neutral attitude towards the brand. The older consumers from this segment mentioned it was just a passing trend, and “not for them”. A more detailed IQOS’ Brand image can be seen in Appendix 22.
Potential IQOS consumption	Hard to reach, since not only they are very loyal to one tobacco product, cigarettes, they are very loyal to one specific cigarette brand.
Insights	<p><i>“I have smoked Marlboro Red for the past fifteen years and I don’t intend to change. I’m loyal to it because I already know I like it, so why switch?”</i> Cigarettes, Male, 45-55, >7 packs per week</p>

Source: Author, based on primary research

The rolling tobacco smokers were divided into two subsegments: the “Stoners” (who smoke rolling tobacco because it’s a complementary product to smoke with marijuana) and the “On

a Budget” (who smoke rolling tobacco because it’s the cheaper option of all tobacco products).

Table 12: “The Stoners” overview

The Stoners	
% of the total sample	10,4%
% of IQOS regular buyers	2,9%
Frequently purchased tobacco product	Rolling Tobacco
Frequently purchased tobacco brands	Amber Leaf, Golden Virginia, Amsterdamer, Pueblo, Crossroad
Buyer Group	Other Brand Loyals, who regularly buy a brand other than IQOS.
Benefits sought	A cheap complementary product to smoke with marijuana.
Brand Image regarding IQOS	Negative, since they are disconnected from the brand, considering it expensive and for people from higher social classes. A more detailed IQOS’ Brand image can be seen in Appendix 22.
Potential IQOS consumption	Hard to reach, since heated tobacco doesn’t allow this segment to use it as a complementary product for other smoking activities.
Insights	<i>“I started smoking rolling tobacco when I started smoking weed and this way I don’t need to buy two kinds of tobacco products.”</i> Rolling tobacco, Male, 18-25, 3-4 packs per week

Source: Author, based on primary research

Table 13: “The On a budget” overview

The On a budget	
% of the total sample	4,3%
% of IQOS regular buyers	10%
Frequently purchased tobacco product	Rolling Tobacco
Frequently purchased tobacco brands	Amber Leaf, Chesterfield, Golden Virginia
Buyer Group	Other Brand Loyals, who regularly buy a brand other than IQOS.
Benefits sought	Want a tobacco product they can afford, since rolling tobacco is one of the cheapest options of all tobacco products.
Brand Image regarding IQOS	Negative, since they are disconnected from the brand, considering it is expensive, for people from higher social classes. A more detailed IQOS’ Brand image can be seen in Appendix 22.
Potential IQOS consumption	Hard to reach, since it is necessary to do a big first investment to buy the IQOS’

	device, and HEETS packs are more expensive than rolling tobacco.
Insights	<i>“I smoke rolling tobacco because it is much cheaper than other tobacco products and because it is more natural, with less chemicals”</i> Rolling tobacco, Female, 18-25 years old, 3-4 packs per week

Source: Author, based on primary research

Finally, the e-cigarette smokers’ segment: the “Geeks on a Budget” (who smoke e-cigarettes because it’s cheaper and because they appreciate the technological factor).

Table 14: “The Geeks on a Budget” overview

The Geeks on a budget	
% of the total sample	1,7%
% of IQOS regular buyers	0%
Frequently purchased tobacco product	Reduced Risk Products, more specifically e-cigarettes
Frequently purchased tobacco brands	MyBlu, Logic., Juul, other e-cigarette brands
Buyer Group	Other Brand Loyals, who regularly buy a brand other than IQOS.
Benefits sought	A technological cheaper alternative to smoking, which is seen as a gadget.
Brand Image regarding IQOS	They perceive it is a direct competitor to the products they smoke, since it’s also technological, but they feel disconnected from the brand and perceive IQOS as an expensive brand, for people of higher social classes, since IQOS is the most expensive device among its competitors. A more detailed IQOS’ Brand image can be seen in Appendix 22.
Potential IQOS consumption	Harder to reach due to disconnection from the brand due to financial reasons or status.
Insights	<i>“I started smoking e-cigarettes because it is technological and I can exhale a lot of smoke at once, which I think is cool.”</i> E-cigarettes, Male, 18-25, 1-2 packs per week

Source: author, based on primary research

5. Analysis of IQOS’ viability in Portugal

To study the viability of IQOS in Portugal, each segment’s loyalty regarding IQOS was analysed in the tables above, as well as their likelihood of switching to other tobacco products and their brand image regarding IQOS, to understand the brand’s possible further market penetration along with current consumer’s brand loyalty. It was concluded that IQOS has already several brand loyal consumers (26% of the quantitative research sample), and despite

being a recent product and brand in the Portuguese market compared to several others, who have been established in the market for more than twenty years, it is already a preferred brand, with a significative penetration of the Portuguese tobacco market (consumed by 68,4% of the quantitative research sample). In the case of IQOS, awareness is not an issue, as 95% of the respondents of the quantitative questionnaire answered they knew at least IQOS' name. Furthermore, a SWOT analysis is going to be conducted, to ultimately understand IQOS' strengths and weaknesses in the Portuguese market, as well as external opportunities and threats, such as new competitors and trends. This will explain IQOS' viability in the long term. No recommendations to the brand are going to be developed, as the marketing activities in this market are highly restricted.

5.1. SWOT Analysis

Table 15: IQOS' SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Early mover advantages, introducing IQOS as the standard of the industry and creating entry barriers by having many consumers that possess the device - High brand awareness - Technological leadership and over 1800 granted patents and almost 4000 pending applications for intellectual property regarding the development of the IQOS' device (Business Wire, 2017). - Related to Marlboro and PMI, trusted and established brands in the tobacco market and market leaders - Growing customer base with a high level of satisfaction due to excellent customer care and product's benefits - Expertise in RRP's, with manufacturing facilities and human resources specialized on IQOS - Extraordinary level of distribution (gas stations, kiosks, grocery stores, vending machines, internet) - Only heated tobacco product available in Portugal - Partnerships with retailers (premium in-store representation) - PMI is the only tobacco company present in festivals and events - Higher margins than other tobacco products, due to a less significant tax burden - Offer of personalized product designs, which is highly valued - Due to the high price of a single device, customers' switching costs are rather high 	<ul style="list-style-type: none"> - Exceptional level of scrutiny, taxation and regulation of the market, which limits the ability to leverage IQOS' branding - Perceived as not as satisfying and pleasurable as other tobacco products - High involvement purchase versus other tobacco products, due to the high price of the IQOS' devices - Asymmetric presence in Portugal, being significantly more present in Lisbon and Oporto - No independent studies regarding IQOS' health benefits versus other tobacco products and long-term health effects, which generates mistrust - While it may be true that customers can associate Marlboro's popular qualities and trust with IQOS, it also exposes it to the risk of chaining an image of a harmful brand on their innocent product and being connected to traditional smoking, also due to being produced by Tabaqueira, the largest tobacco manufacturer in Portugal. - Perceived as not practical due to being battery operated and restricting the number of puffs given in each heat stick

- Only RRP that offers cigarette-like products, which is highly valued	
Opportunities	Threats
<ul style="list-style-type: none"> - Turn The Softs and The Fresh segments into loyal customers - Penetration of the whole The Fresh segment due to new Portuguese law that forbids menthol-flavoured cigarettes - Practice a differentiated pricing strategy, offering a cheaper, less premium device to allure new customers, while maintaining loyal customers with the premium devices. This would eliminate the perception of some segments that IQOS is an expensive brand and a high involvement purchase and avoid the purchase of secondhand devices - Continue R&D, to develop a long-lasting battery 	<ul style="list-style-type: none"> - Entrance of new players in the RRP's market, also available in normal distribution, owned by big tobacco manufacturing brands, who offer a more competitive price - Stricter regulations and taxation towards RRP's, decreasing IQOS' margin and power to communicate - Entrance of new players in the heated tobacco market after IQOS' patent reaches its expiration date - Increasing fear of health risks regarding RRP's as more data and independent studies reveal its long-term health effects - Increasing awareness of people towards the dangers of smoking, which can lead to the reduction of sales of all tobacco products - Public perception of IQOS as a trendy way to smoke can ultimately contradict PMI's vision statement to be a mean to stop smoking and harm the enterprise's image

5.2. Conclusion

As it was possible to conclude through the qualitative research, IQOS is already considered a tobacco product itself and not just another RRP, as consumers say “I smoke IQOS” and not “I smoke heated tobacco”, whereas consumers refer to any e-cigarette brand to just “an e-cigarette”. Thus, IQOS is already an established brand in Portugal which differentiates itself among other RRP brands, standing out in the consumers' minds as the most relevant alternative to conventional smoking. This is explained by the fact that IQOS was the very first RRP in Portugal available in convenient distribution, in the same locations as cigarette brands, which ultimately justifies the success of IQOS: as tobacco consumers are addicted to the product, one of the most important features of the brand they choose to purchase is availability. Furthermore, IQOS' marketing strategy and its capacity to be a tobacco product with consistent branding and significant brand awareness despite the highly regulated market where it operates explain the current success of IQOS in Portugal. These reasons made IQOS the pioneer in convenient distribution of RRP's, which changed the industry's structure, as the other major players in the tobacco market already followed IQOS' footsteps and launched

RRPs conveniently available. This provided IQOS early mover advantages, becoming the standard of the RRP's industry with already several consumers in the loyalty loop.

Thus, although IQOS is being threatened by new entrants in the market, which can lead to the loss of a few consumers in the Trendy Techs, Softs and Fresh segments which are still not loyal, it still can further penetrate the market with uncompromising smokers who decide they want to feel healthier or quit smoking (The Health Concerned) or feel more socially accepted (The Socially Concerned), since 70% of smokers would like to quit and a significant percentage of smokers want to feel better with themselves and with the society and IQOS is the benchmark and the Top of Mind choice regarding healthier smoking alternatives and the only RRP in Portugal with the heat-not-burn technology that mimics the feeling of smoking a cigarette by offering a cigarette-like product, contrasting with the liquid nicotine other RRP's offer.

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A Work Project presented as part of the requirements for the Award of a Master Degree in
Management from the NOVA – School of Business and Economics

A MARKET RESEARCH ON THE TOBACCO CONSUMERS IN PORTUGAL: WHAT
EXPLAINS THE SUCCESS OF IQOS AND WILL IT SUSTAIN IN THE FUTURE?

APPENDICES

GABRIELA EDUARDA ROCHA BRAZ, 33617

A Project carried out on the Master in Management Program, under the supervision of:

Lena Kemna

Catherine da Silveira

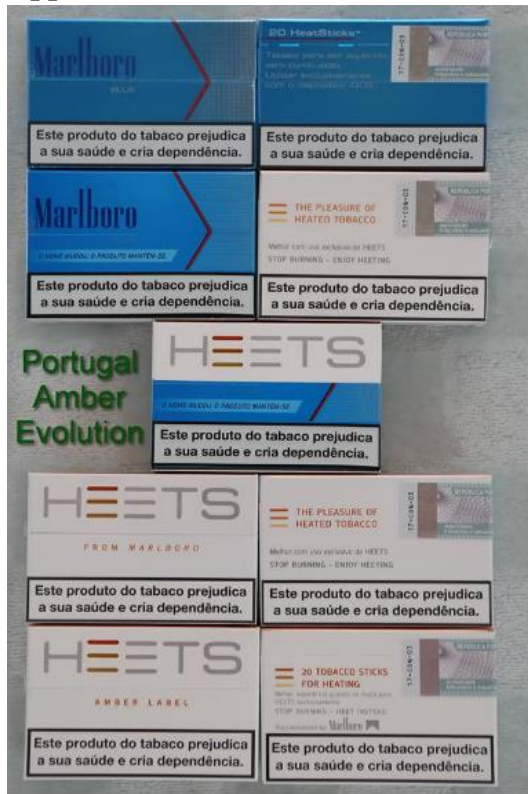
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Appendices

Appendix 1: Evolution of HEETS sticks' branding with the Marlboro label



Source: IQOS Portugal, 2018

Appendix 2: Public awareness-raising campaigns



Source: Respira, 2016

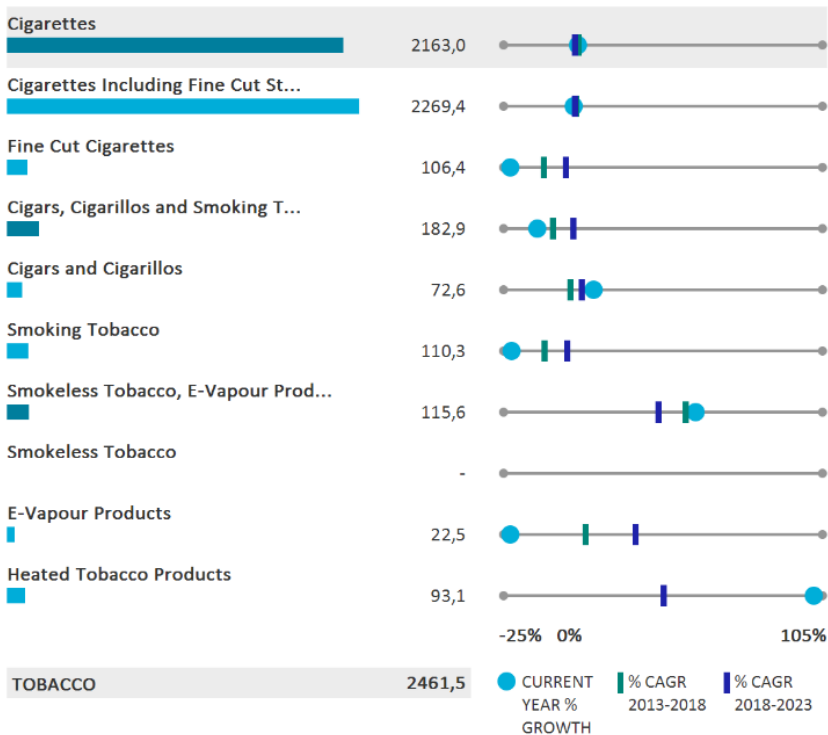
Appendix 3: Sales of tobacco by category

Sales of Tobacco in Portugal by Category

Retail Value RSP - EUR million - Current - 2018

Growth Performance

Click on a Category to update Sales Chart



Passport

© Euromonitor International 2019

Source: Euromonitor, 2018

Appendix 4: Mandatory warnings on the dangers of tobacco on the tobacco products packaging



Source: Público, 2016

Appendix 5: MyBlu, Logic. And Juul products



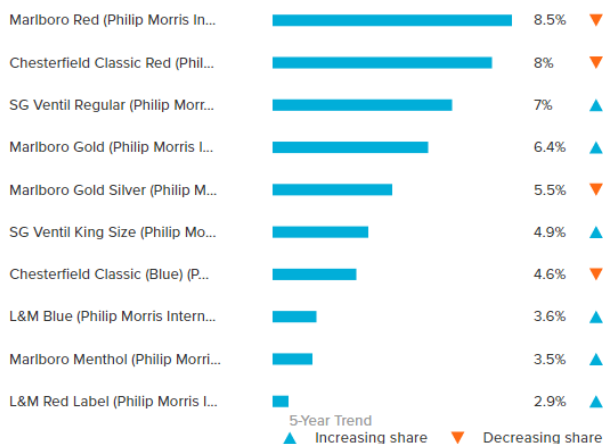
Appendix 6: Price of packs and devices of RRPS in Portugal

Brand	Price of pack/liquid	Price of device
IQOS	4,5€	49€, 79€ or 99€, depending on the device
MyBlu	6,99€ - 2 liquid bottles (1 is equivalent to 1 pack)	19,99€
Juul	11,99€ - 4 Juul pods (1 Juul pod is equivalent to 1 pack) 6,99€ - 2 Juul pods	29,99€ or 34,99€, depending on the device
Logic.	2,95€ (equivalent to 2 packs)	19,95€

Source: Author, based on brand's websites and in-store observation

Appendix 7: Tabaqueira's Brands Market Shares in Portugal

Tabaqueira SA - Empresa Industrial de Tabacos SA
Brand Shares in Tobacco
Retail Volume - 2018



Source: Passport, 2018

Appendix 8: IQOS' logo & slogan



Market Penetration Stage

Customer Retention Stage

Source: Philip Morris International, 2018

Appendix 9: HEETS sticks



Source: Philip Morris International, 2019

Appendix 10: IQOS' devices



novos
IQOS 3 DUO
€99



IQOS 3 MULTI
€79



IQOS 2.4 PLUS
€49

Source: Philip Morris International, 2019

Appendix 11: Interview guide: IQOS' staff

Topics to be developed:

1. IQOS' marketing strategy

1.1 Target

- 1.2. Market penetration strategy
- 1.3 Customer retention strategy
- 1.4 Distribution strategy
- 1.5 Communication strategy
2. IQOS' positioning statement

Appendix 12 - Pre-recruiting questionnaire

1. Do you smoke?

No: Stop interview

Yes: Question 2

2. Which of the following tobacco brands do you know at least the name?

 Marlboro	 Chesterfield	 Lucky Strike	 Português	 Pall Mall	 Mark 1	 JPS
 L&M	 Camel	 Winston	 Heets	 SG	 Slims	 Black Devil
 Elixyr	 West	 Rothmans	 Che	 Águia	 Amber Leaf	 Pueblo
 Golden Virginia	 Amsterdam	 Crossroad	 Samson	 Sabor & Vapor	 Blu	 Vapor Planet
 Vapuro	 Why not vapor	 4vapor	 2smok	 Provape		

Doesn't know Heets: stop interview

Know Heets: Question 3

3. Have you used the IQOS device?

Either way, interview

Appendix 13: Interview guide: consumers

Warm-up: I'm going to ask you a few questions for my master thesis regarding tobacco consumption in Portugal. For this research, I am using a particular technique: the non-directive method; it means that I will not ask you specific questions about the subject, as in a standard questionnaire. After the first question that I will introduce now, you will be free to tell me whatever comes to you mind regarding tobacco consumption. If you don't mind, I will record the interview.

Initial question: Last time you bought any kind of tobacco to consume, which brand did you buy and why?

Topics to be developed:

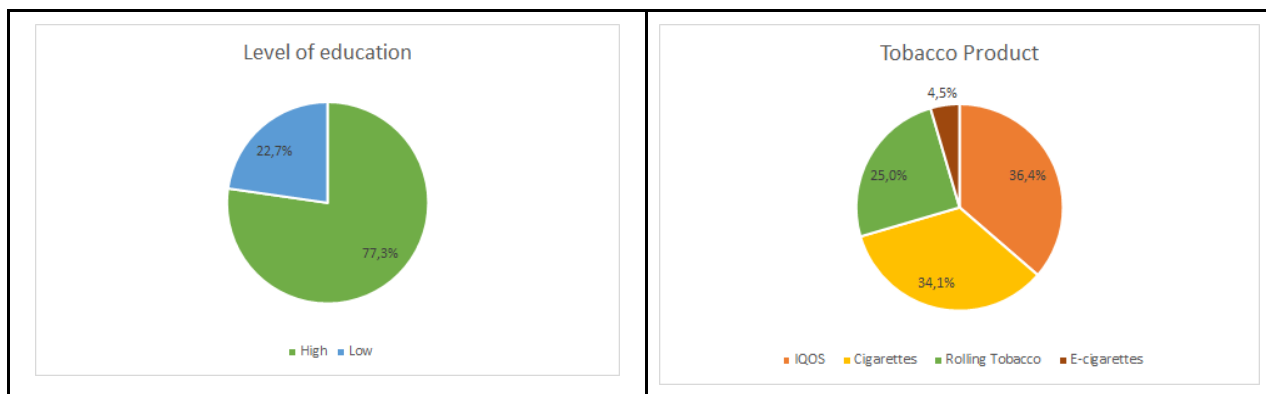
1. Purchase behaviour
 - 1.1. Subcategory type (i.e. cigarettes, e-cigarettes, rolling tobacco...)
 - 1.2 Brand purchased
 - 1.2. Product type (i.e. Marlboro Gold, Marlboro red...)
 - 1.3. Buying drivers
 - 1.4. Decision making drivers
 - 1.5. Purchase volume & frequency
 - 1.6. Channel of purchase
2. Consumer behaviour towards the category
 - 1.1. Occasion & situation
 - 1.2. Consumption motivation (now and when they started)
 - 1.3. Associations regarding the consumption of tobacco
3. Image and perceptions
 - 3.1. Image of product consumed
 - 3.2. Image of competitors inside the tobacco subcategory
 - 3.3. Image of other tobacco subcategories
4. Obstacles & incentives in the consumption of Heat not Burn devices

Projective technique

“if (brand) was a person, how would you describe him/her? (mention the brands the interviewee mentioned + IQOS)”

Appendix 14: Sample Characterization: In-depth Interviews with consumers (n=44)





Source: Primary Research (Qualitative Questionnaire)

Appendix 15 - Quantitative questionnaire

- 1. Are you a smoker?**
 - a. No – stop questionnaire
 - b. Yes – Continue to next section
- 2. To participate in the ruffle of the IQOS 3 device, please write your e-mail.**
- 3. Which kind of tobacco products do you smoke?**
 - a. Cigarettes
 - b. E-cigarettes
 - c. Heated Tobacco (i.e IQOS)
 - d. Rolling Tobacco
 - e. Cigarillos / cigars
- 4. Which of the following brands do you smoke regularly?**

Malboro Red	Português Blue	Camel
Malboro Gold	Português Red	Camel Blue
Marlboro Menthol	Chesterfield Black	Camel Activate
Chesterfield Red	SG Ventil	L&M Blue
Chesterfield Blue	SG Gigante	L&M Red
Chesterfield Press	JPS Menthol	L&M Menthol
Pall Mall Red	HEETS	Português Yellow
Pall Mall Azul	Karelia	Black Devil

Mark 1 Gold	Lucky Strike Red	Amber Leaf
Mark 1 Red	Lucky Strike Blue	Golden Virginia
Crossroad	Pueblo	Amsterdamer

5. How many packs or equivalent do you smoke per week? (being 1 ounce equivalent to 3 packs)

- a. 1-2
- b. 3-4
- c. 5-6
- d. 7 or more

From 1 (I don't agree with this sentence) to 5 (I deeply agree with this sentence), please state your opinion:

I want to quit smoking in the near future

I like soft tobacco / tobacco with a soft taste

I like menthol tobacco products

I'm loyal to a tobacco brand

I smoke substances derived from cannabis

I see myself switching to other tobacco product

I choose the brand I smoke by its price

I choose the tobacco product I smoke by its price

Design and modernity are important to me when it comes to tobacco products

Do you know this brand?

- a. No: stop questionnaire
- b. Yes: continue to next section

From 1 (I don't agree with this sentence) to 5 (I deeply agree with this sentence), please state your opinion:

IQOS is a cool brand

IQOS is a cheap brand

I see myself switching to IQOS in the near future (ignore this question if you already smoke IQOS)

Smoking with IQOS is better aesthetically

Smoking with IQOS is more socially accepted than smoking other tobacco product

IQOS devices have an appealing design

Smoking IQOS is better for your health compared to other tobacco products

Smoking IQOS is a good way to quit smoking

Smoking IQOS is as pleasurable as smoking other tobacco products

IQOS is a product for higher social classes

Smoking IQOS is appealing due to being technological

Do you smoke IQOS?

- a. No: stop questionnaire
- b. Yes: continue to next section
- c. I have, but I stopped: continue to next section

10. If you smoked IQOS but you stopped, please indicate why:

From 1 (I don't agree with this sentence) to 5 (I deeply agree with this sentence), please state your opinion:

I feel more socially accepted since I started smoking IQOS

I started smoking IQOS because it was a trend in Portugal

I started smoking IQOS due to its appealing design

I started smoking IQOS because I want to quit smoking

I started smoking IQOS because I didn't want to smell like smoke

I started smoking IQOS because I like soft tobacco/ tobacco with a soft flavor

I don't smoke any other tobacco products since I started smoking IQOS

What is the highest academic level you completed?

- a. 9th grade
- b. 12th grade
- c. Bachelors
- d. Masters / postgraduate
- e. PhD

What's your age range?

- a. 18-25
- b. 26-35
- c. 36-45
- d. 46-55
- e. 56-65
- f. >65

14. What's your gender?

- a. Female
- b. Male

Appendix 16. IQOS' brand positioning

Who the target buyers should be		Uncompromising smokers, who don't want to/can't quit yet, but want to feel the pleasure of smoking without the harms involved
Who the main competitors should be		All tobacco products & brands, and other Reduced Risk Products
How the brand should be similar to them	Category Points of Parity Necessary- but not sufficient conditions for choosing the brand	<ul style="list-style-type: none"> Nicotine Inhaling Smoke/vapor Present in convenient distribution
	Competitive Points of Parity Designed to "negate" competitors' points of difference	<ul style="list-style-type: none"> No smell in hands, clothes, house Less harmful to your health (allegedly) No yellow teeth/fingers No passive smokers
		Marlboro & PMI's endorsement: long term established brands in the tobacco market

How the brand should be different from these competitors and credible reasons for choosing the brand over competition	High R&D costs
	Revolutionary Product: Tobacco is heated and not burnt
<p style="text-align: center;">Positioning Statement</p> <p>For uncompromising smokers who don't want to quit yet but want to feel healthier (Target), IQOS is a heated tobacco brand (Frame of Reference), present in several kiosks and stores throughout Portugal, which contains nicotine and allows the inhaling of vapor, releasing less odor and producing less smoke compared to conventional cigarettes (POP). It is a Philip Morris International brand, endorsed by Malboro, with a significative investment involved, due to being a disruptive new smoking alternative (POD & Reason to Believe).</p>	

Source: Primary Research

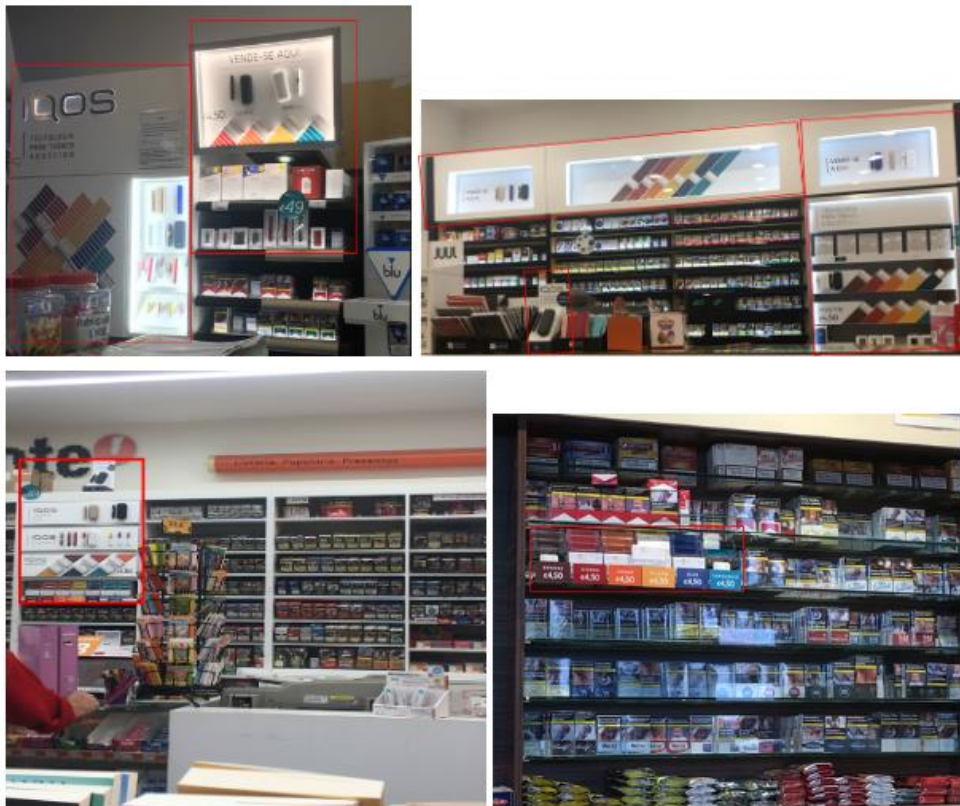
Appendix 17: Examples of IQOS' brand ambassadors posts on social media



Appendix 18: IQOS' communication in social media

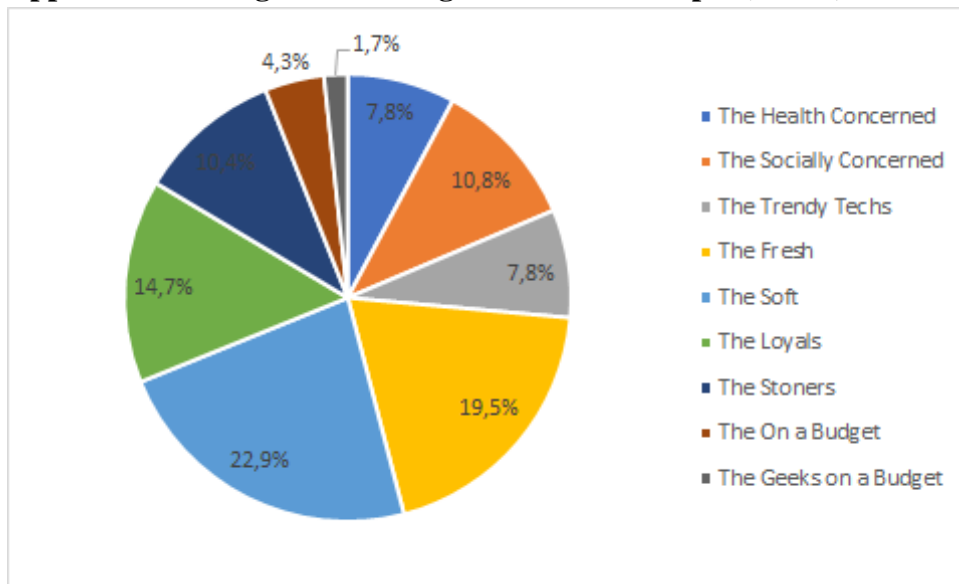


Appendix 19: IQOS' point of sale marketing



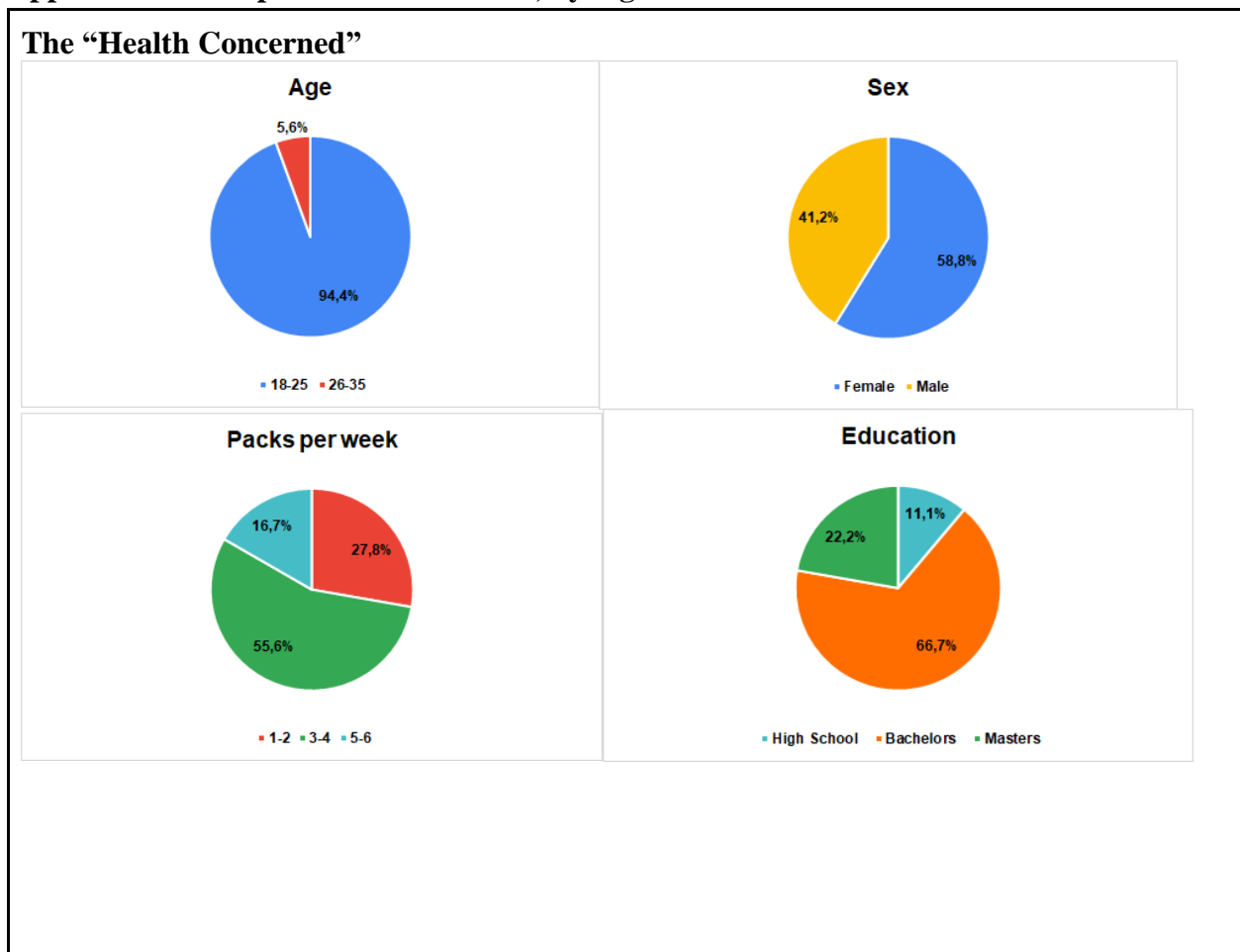
Source: Primary Research

Appendix 20: Weight of each segment in total sample (n=305)

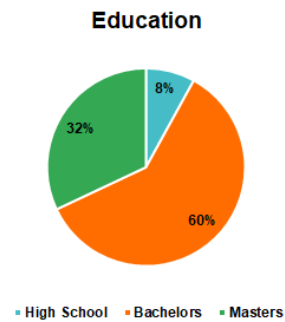
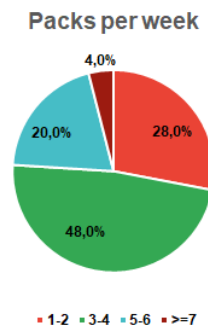
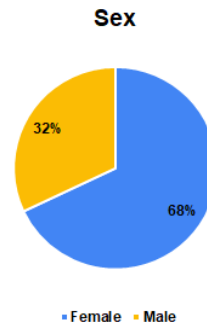
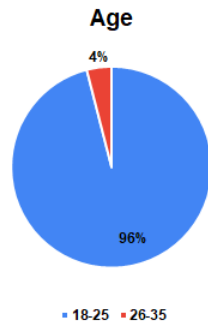


Source: Primary Research (Quantitative Questionnaire)

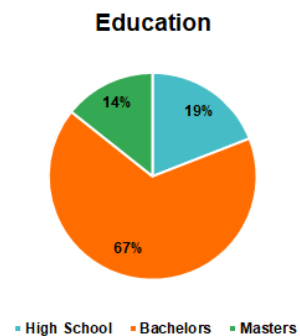
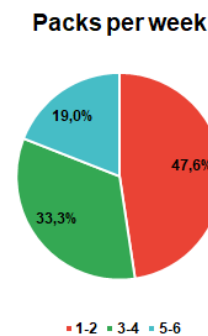
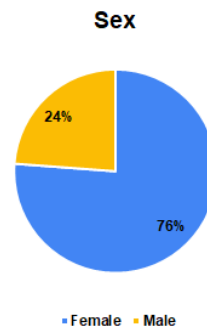
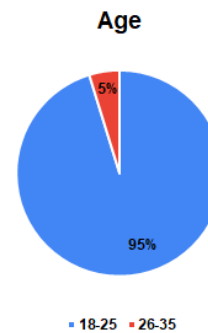
Appendix 21: Sample Characterization, by segment



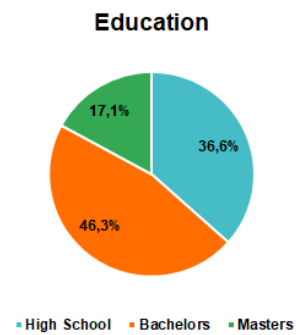
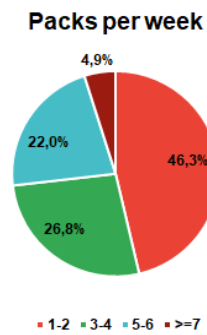
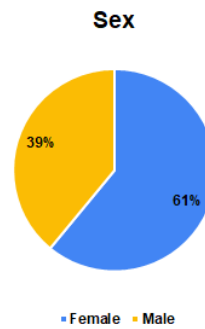
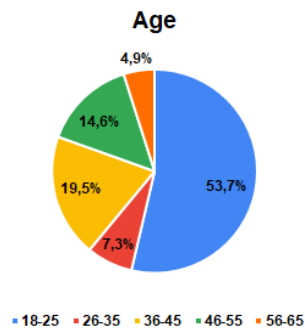
The “Socially Concerned”



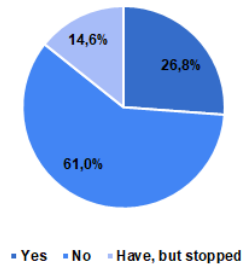
The “Trendy Techs”



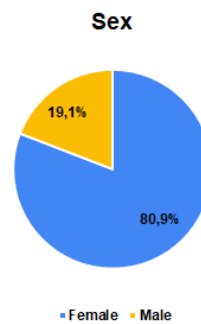
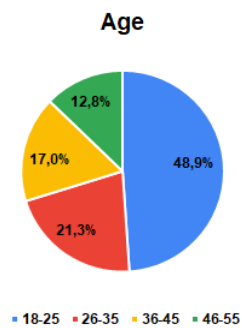
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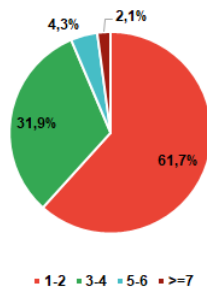
Do you smoke IQOS?



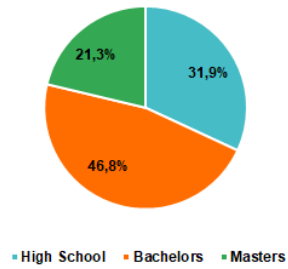
The “Fresh”



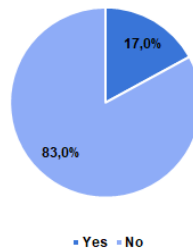
Packs per week



Education

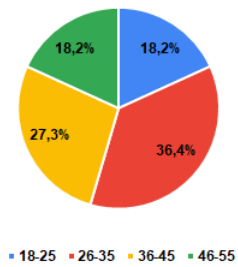


Do you smoke IQOS?

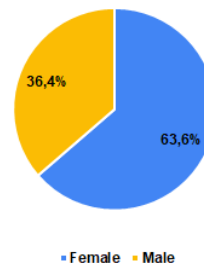


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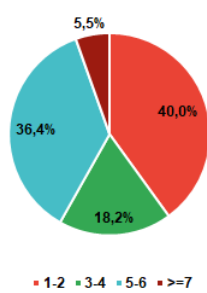
Age



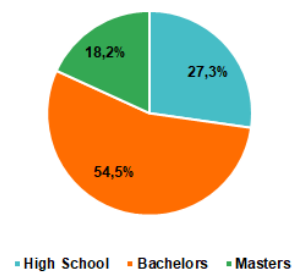
Sex



Packs per week

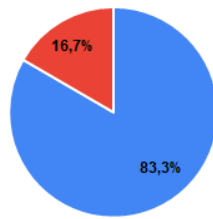


Education



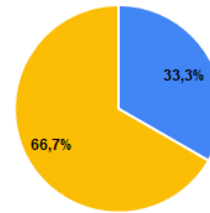
The “Stoners”

Age



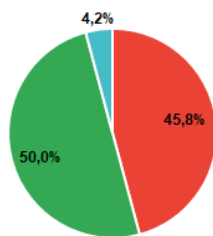
■ 18-25 ■ 26-35

Sex



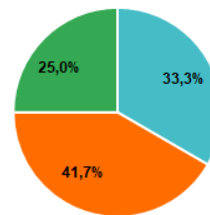
■ Female ■ Male

Packs per week



■ 1-2 ■ 3-4 ■ 5-6

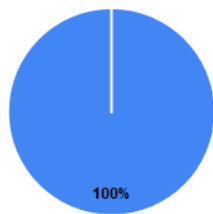
Education



■ High School ■ Bachelors ■ Masters

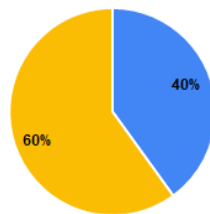
The “On a Budget”

Age



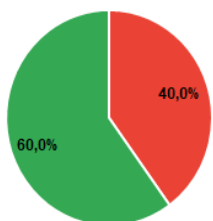
■ 18-25

Sex



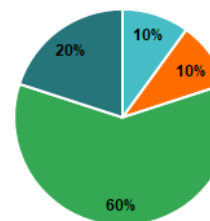
■ Female ■ Male

Packs per week



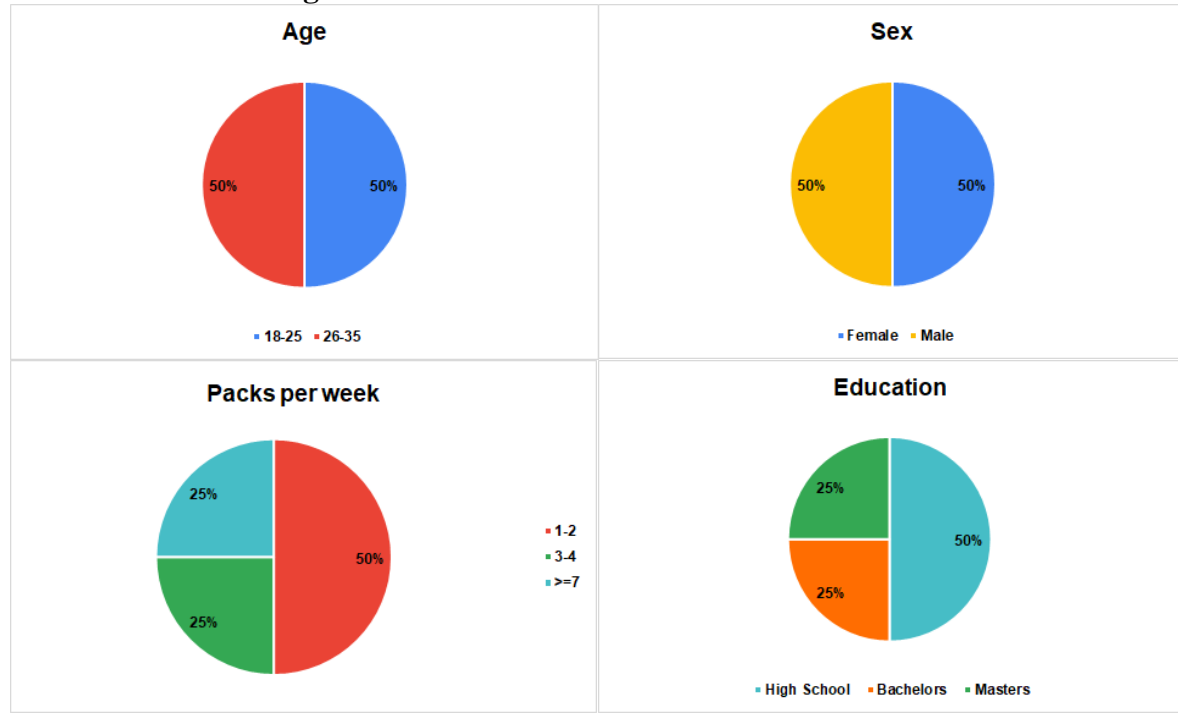
■ 1-2 ■ 3-4

Education



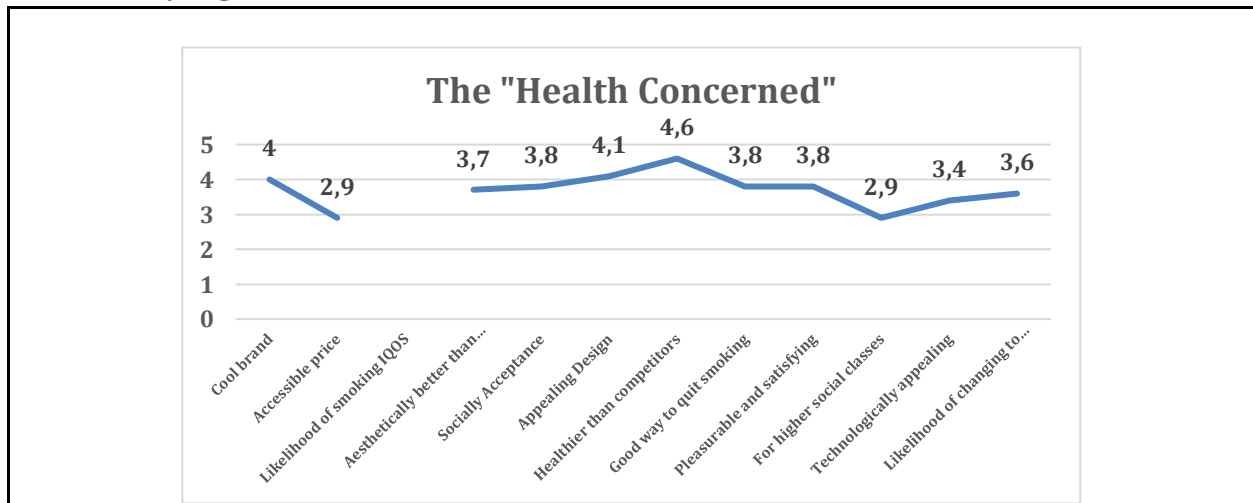
■ Middle School ■ High School ■ Bachelors ■ Masters

The “Geeks on a Budget”

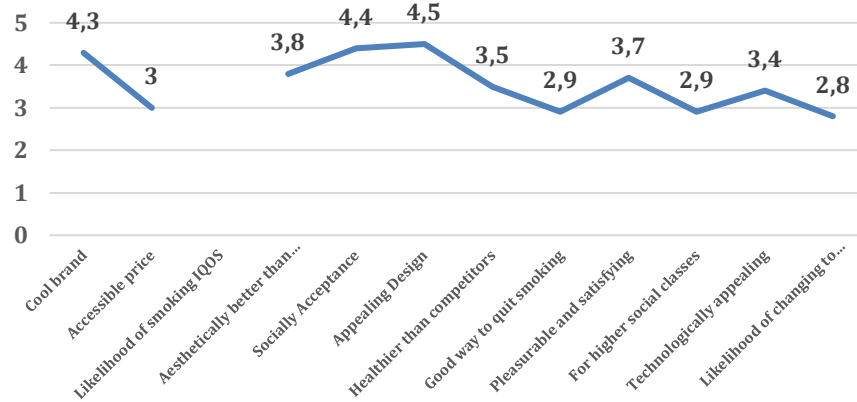


Source: Primary Research (Quantitative Questionnaire)

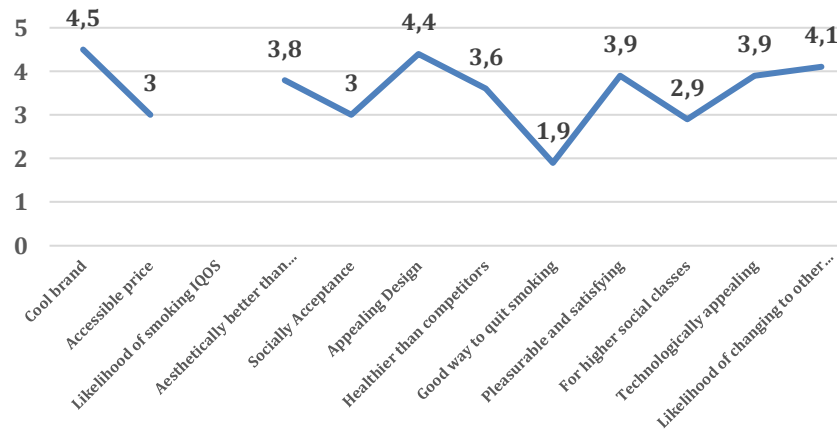
Appendix 22: IQOS’ Brand image and likelihood of changing tobacco products measured by segment



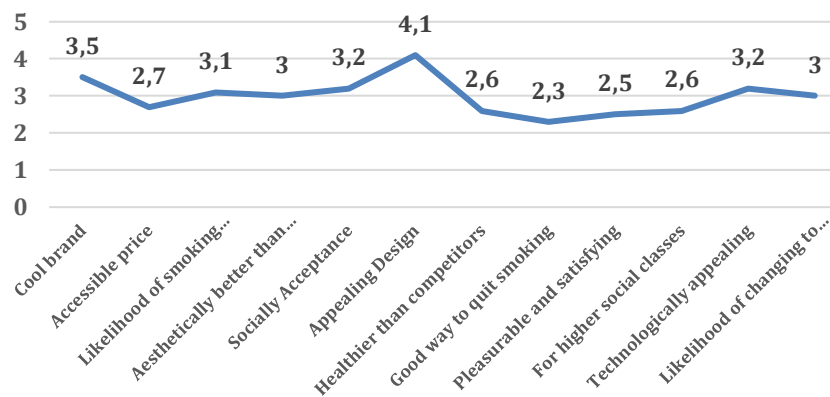
The "Socially Concerned"



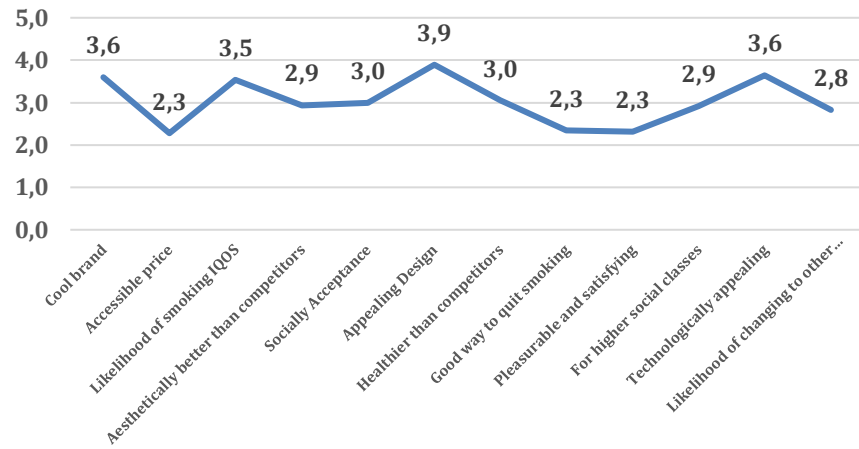
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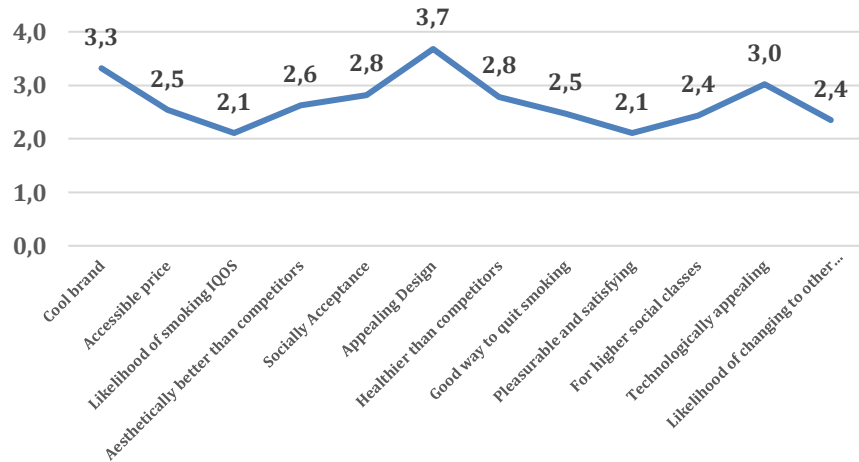
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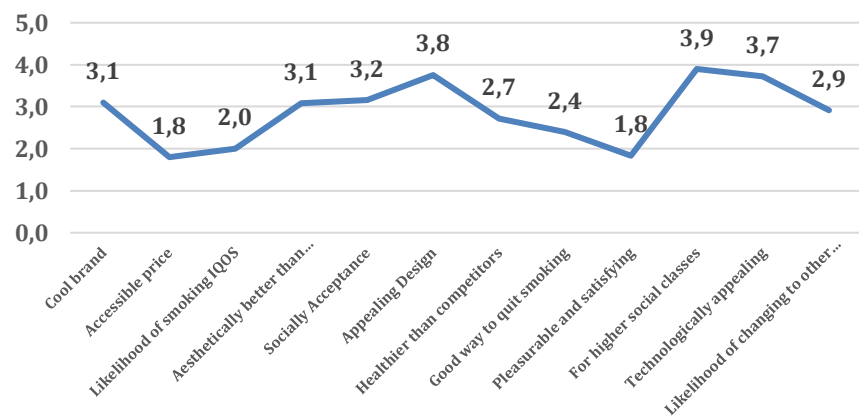
The "Fresh"

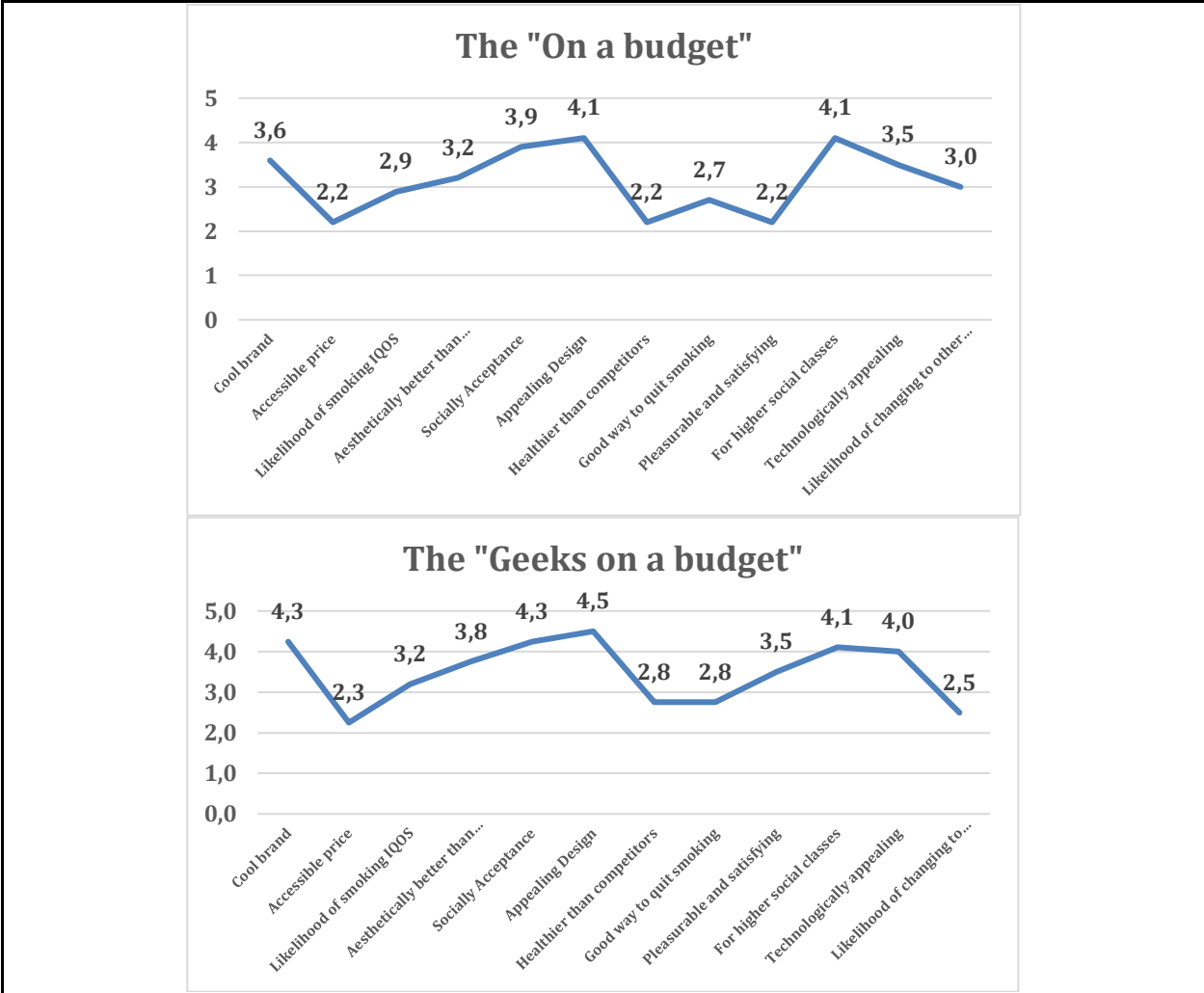


The "Loyals"



The "Stoners"





Source: Primary Research (Quantitative Questionnaire)